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No. 82-399

IN THE

Supreme Court of the United States

October Term, 1982

SPAN-DECK, INC.,

Petitioner,

vs.

FABCON, INCORPORATED, and
RAUENHORST CORPORATION,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

Petitioner Span-Deck, Inc. ("Span-Deck") replies as follows to the Brief in Opposition filed by respondents Fabcon, Incorporated ("Fabcon") and Rauenhorst Corporation ("Rauenhorst"):

I.

The Decision of the Court of Appeals Intrudes on State Contract Law, Which Would Enforce a Franchisee's Royalty Obligation Where Substantial Consideration Remains After a Partial Failure of Consideration.

Misapplying this Court's decision in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the court of appeals in the instant case improperly ruled that when a patent constitutes any part of the consideration for a franchise contract, federal patent policy bars a state from enforcing that contract despite the presence of other, valid consideration, including another valid patent.[1] This ruling, made without the careful balancing of the policies of federal patent law and state law required by this Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), improperly and unnecessarily encroached upon the proper domain of state law. (Petition, Part I, pp. 9-18).

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[1]That other, valid consideration includes: supplying Fabcon with casting machinery and related items for equipping and operating a Span-Deck factory; furnishing detail drawings on the casting equipment; furnishing advisory personnel to check on Fabcon's installation and operating procedures; on an ongoing basis, making available Span-Deck's experience and knowledge, its know-how and trade secrets regarding the equipment and its use in the manufacture of all Span-Deck products and the end-use thereof and advising and consulting with Fabcon and permitting study by Fabcon of Span-Deck's processes and equipment; licensing Fabcon under Span-Deck's trademarks; assuring territorial exclusivity; and making available later designs or improvements of Span-Deck's equipment and processes. (Petition, App. G, ¶¶ 2.1-2.7, 4.13).

The consideration also includes the Kinnard patent, the validity of which the Eighth Circuit upheld. (Petition, App. A, pp. A-6 - A-7; 677 F.2d at 1240-1). The finding that Fabcon's present plant did not infringe the Kinnard patent does not render it valueless. Other Span-Deck franchisees operate plants covered by the Kinnard patent: Fabcon could have chosen to install such equipment; and its franchise contract permitted it to keep competitors from manufacturing by that method in Fabcon's territory. (Petition, App. G, ¶¶ 4.12, 4.13).

In their brief opposing the Petition for Certiorari, respondents ask that review not be granted, claiming that no question of federalism is involved, inasmuch as the court of appeals did remand the case for a determination of the value of nonpatent consideration received by respondents. That response, however, misses the point: The failure of the court of appeals to enforce the contract agreed upon by the parties is itself an unwarranted federal intrusion into state law. Where, as here, a franchise is supported by ample and substantial consideration without regard to a patent held to be invalid, a state court would enforce the royalty obligation. *See* Petition at 15. *See also Del Riccio v. Photochart,* 268 P.2d 814, 821, 124 Cal. App.2d 301 (1954); *Blackburn v. White,* 147 S.W.2d 7, 9, 201 Ark. 663 (1941); *Nichols v. Seaks,* 295 N.W. 596, 296 Mich. 154 (1941). *Cf. Lear, Inc. v. Adkins, supra,* 395 U.S. at 669 ("Under ordinary contract principles the mere fact that some benefit is received is enough to require the enforcement of the contract . . ."). This rule has its basis in the traditional and reasonable reluctance of courts to weigh the amount or relative adequacy of consideration.

The Eighth Circuit's decision not to enforce the contract provisions but to remand for a redetermination of the consideration to be paid is a direct denial of Span-Deck's state law contract rights. The Eighth Circuit's blind application of the principle of preemption, without an analysis of whether enforcement of the contract would be inconsistent with federal patent law or policy, raises questions of federalism that will have a profound impact on franchise contracts and the patent system. *See* Petition at 17-18. Those questions merit this Court's review.

Respondents' attempt to force this case into the *Lear* mold also misses the mark.[2] They assert that Span-Deck is urging a rule requiring continued payment of full royalties until respondents' patent challenges succeed. Span-Deck has not so urged. The direct holding of *Lear* is that a patent licensee is not estopped from challenging validity. The policy of *Lear* is that there should be full and free use of ideas in the public domain. Span-Deck does not contest these policies. It has not sought to prevent patent royalties from being withheld when challenging a patent. Rather, the Petition presents the separate issue that enforcement *vel non* of a franchise contract which includes patent rights is to be determined after a balancing of state and federal concerns and not mechanically foreclosed. It is one thing to be allowed to withhold royalty payments pending determination of a patent's validity and quite another to be excused from contracted for royalty obligations when that contract remains supported by substantial consideration even after a determination of patent invalidity.[3]

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[2]Respondents' argument that *Lear* controls rests in large part on respondents' continued attempt to describe the Span-Deck/Fabcon Contract as a mere patent license rather than as the franchise contract it in fact is. (*See* Petition, App. G). Much more is involved here than one patent license with prepatent disclosure of the invention, as was the case in *Lear*. *See* note 1, *supra*.

[3]Respondents' further assertion that the *Lear* Court considered and rejected the questions raised here has no basis in fact. Lear's licensor argued that his prepatent disclosure to Lear of the technology which later issued as a patent would be sufficient consideration for royalties whether or not the patent was invalidated. 395 U.S. at 672. No nonpatent consideration following issuance of the patent was claimed. Unlike the situation in *Lear*, Span-Deck claims no consideration at all in the form of prepatent disclosure to Fabcon; Span-Deck's nonpatent consideration consists of trade secrets, trademarks, continuing consultation, exclusivity and other matters which exist independent of its patents. *See* note 1, *supra*. The role of such consideration was simply not considered in *Lear*, and *Lear* states no rule as to royalty payments for such consideration either alone or as part of a larger technology package including patents.

Proof that *Lear* does not stand for the propositions respondents' urge was given by this Court in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), where this Court reversed another Eighth Circuit determination that failure of the patent-based consideration for a contract invalidated the entire contract, even though the contract was supported by other consideration. In *Aronson*, this Court gave effect to the parties' agreement. Contrary to the assertions of respondents, it neither required nor sanctioned the action taken here by the Eighth Circuit, which ordered that the contract royalty be rewritten by the District Court to apportion consideration between patent and nonpatent value. This federal revision of a contract valid under state law was not mandated by principles of federal patent law and should be reviewed by this Court.

II.

The Court of Appeals' Decision that An Assertion of Patent Invalidity Requires Removal from State Law of the Issue of Justification for a Tortious Inducement to Breach a Contract Also Overreaches Federal Concerns.

The court of appeals also ruled that the mere assertion of patent invalidity by a party who induces another to breach a franchise contract is enough to remove the question of justification for inducing the breach from the requirements of state law. This automatic preemption of state tort law is in contravention of the reasoning of *Kewanee Oil Co. v. Bicron Corp., supra,* and merits this Court's review. (Petition, Part II, pp. 19-21).

Respondents avoid the questions presented in Parts II and III of the Petition by labeling them a mere attempt to have this Court review the evidence supportive of the jury's verdict. The argument is not correct. Rather, the Petition contends that the court of appeals did not review the evidence supportive of the jury's special verdict in accordance with the substantial evidence test as the Seventh Amendment requires. This Court should grant certiorari to review the manner in which the court of appeals overreached *its* limited evidence-reviewing function. Given the nature of the appellate court's decision, little or no evidentiary review by this Court will be required.[4]

There are additional reasons why the Court should review petitioner's Question II, reasons sidestepped by respondents. Respondents are incorrect that no jury finding on the question of justification can be inferred from its verdict; as the District Court concluded, "[the] instructions clearly required the jury to make a finding that Rauenhorst Corporation acted without justification if they were to conclude Rauenhorst Corporation committed the tort." (Petition, App. B, p. A-44). The court of appeals' determination that a mere *claim* of patent invalidity conclusively resolved the question of whether Rauenhorst's total conduct was justified did take the issue from the jury. This is contrary to the clear dictates of Minnesota law. It establishes a scope of preemption for federal patent law which unnecessarily encroaches on state tort law principles described in the Petition, in contravention of the reasoning of *Kewanee Oil Co. v. Bicron Corp., supra.* That issue of accommo-

[4]Depending on this Court's conclusions, the appropriate result in part might be a remand to the Eighth Circuit for its review of the evidence under proper standards.

dating state tort law in the federal patent scheme, squarely presented here, is both important and proper for this Court's review.

III.

The Court of Appeals' Use of Its Own Independent Findings on Evidentiary Matters Determined By the Jury Presents this Court the Opportunity to Resolve the Disagreement in the Circuits Which Respondents Concede Exists.

The court of appeals' use of its own independent findings on evidentiary matters, despite the requirements of the Seventh Amendment and the decisions of several other circuits regarding use of the substantial evidence test in patent cases such as this, has serious implications for the administration of justice in patent cases and should be reviewed by this Court. (Petition, Part III, pp. 21-29).

Conceding that there is "disagreement among the circuits as to the relative weight to be given to jury findings bearing on the ultimate legal issue of obviousness," respondents urge the Court to conclude that this is not the case to take to review the conflict. That, of course, is the predictable response of any litigant who obtains a court of appeals decision in its favor in a controversial field; it is not a helpful response.

Respondents argue that the decision is not an appropriate vehicle for review of the conflict because the court of appeals said that it applied both standards of review to the case at hand. But simply saying that does not make it so. As petitioner has already shown, the lip service paid by the court of appeals to the substantial evidence test should not

be confused with its actual application of the independent evaluation approach. (*See* Petition at 27-28.) Indeed, respondents must cite to the concurring opinion for even an oblique reference to the substantiality of the evidence.

That this Court has previously declined to review an issue such as the one presented here does not counsel against review now. Indeed, since the conflict which this Court has previously tolerated has not been resolved but rather has widened, the current situation now calls for this Court's review.

Respondents raise the spectre of review of the record of a 35-day trial. The narrow issues presented would require little reference to that record. What should be more appalling in view of the length of the trial is the failure of the court of appeals properly to weigh that record under the substantial evidence test and its blithe dismissal of the weeks of trial and the resultant jury verdict, based on its own independent determination of the facts. It is that spectre, casting a pall over all jury determinations, especially those in patent cases, which should be exorcised by the light of this Court's review.

CONCLUSION

The decision of the court of appeals unnecessarily intrudes on state contract law in a way that endangers all franchise contracts and technical assistance agreements for which patent rights form any part of the consideration exchanged. The court of appeals' failure to utilize the proper standard for review of jury determinations in patent cases exacerbates the disagreement among the circuits on the issue. The result offends both constitutional and juridical

principles. The courts, litigants, and all parties who have or would have patents involved in their contracts need the guidance of this Court's resolution of these issues. Accordingly, for all the foregoing reasons here and in the Petition, petitioner respectfully requests that the writ of certiorari be granted.

Respectfully submitted,

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